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Super System Review  
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### **ASFA Submission – Super System Review – ‘SuperStream’ preliminary report**

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the Phase Two preliminary report (*SuperStream: a proposal to bring the back office of super into the 21<sup>st</sup> century*) released by the Review by the Australian Government into the Governance, Efficiency, Structure and Operation of Australia’s Superannuation System (the Panel).

ASFA is a non-profit, non-political national organisation whose mission is to advance effective retirement outcomes for members of superannuation funds through research and advocacy. We focus on the issues that affect the entire superannuation industry. Our membership, which includes corporate, public sector, industry and retail superannuation funds, has as members over 90% of the approximately 12 million Australians with superannuation.

Our Constitution requires that we promote and protect the interests of superannuation funds, their trustees and their members. As such we conduct extensive research, engage our membership in debate and offer what we believe is sound public policy which rises above vested interests.

#### **ASFA’s position on the SuperStream report**

On 22<sup>nd</sup> March 2010, the Panel released their Phase Two preliminary report entitled *SuperStream: a proposal to bring the back office of super into the 21<sup>st</sup> century* (the report).

ASFA notes that the proposals in the report are generally sensible, they address the key issues facing the industry and propose solid workable solutions that reflect, in many instances, recommendations made by ASFA.

The main concerns relate to potential legal and practical problems in implementation rather than what is being sought to be achieved. It is noted that some important issues in regard to governance of new payment and data interchange arrangements also need to be addressed.

Set out on the following pages are brief comments on each of the specific recommendations in the SuperStream report.

## **QUALITY OF DATA**

### **Improving the quality of data**

ASFA:

- Is supportive of the proposal to increase the obligations on employers in regard to how they make contributions to funds and the information they are required to supply. However, in addition to the suggested information, it is recommended that, where appropriate, the employee's commencement and termination of employment dates also be mandatory. These dates are required for insurance purposes, for determining whether further contributions are SG expected and, for some funds, membership eligibility. It is information that would be readily known to the employer.

ASFA also considers that it is necessary for each contribution to identify the contributor (employer) to cater for those situations where, between contributions, the member exits the fund.

ASFA further suggests that, if quality of data is the primary purpose of the recommendation, then the requirement may need to be supported with amendments to the SIS regulations such that a fund could not accept a contribution without either receiving, or holding, the mandated information.

- Considers that penalties are appropriate for non-compliance by employers. However, further discussion is required to determine how or by whom such penalties might be applied.
- Has some concern over the proposal that employers pay contributions to the ATO where an employee fails to provide the employer with their TFN.

ASFA recommends that consideration be given to the need to distinguish between a default fund enrolment by an employer and a new employee making a valid chosen fund nomination. ASFA considers that in the later case the absence of a TFN is no barrier to the contribution being made to the fund, provided the membership number is present.

ASFA further recommends that any arrangements put in place guard against employers using the ATO as a default solution rather than obtaining the required information from the employee.

- Considers that an ATO maintained web based service where new employees can be registered for both tax and superannuation purposes has attractions but would involve considerable practical challenges, not least of which would be the currency of ATO information about fund membership.

### **Standardising Data Transmission**

ASFA:

- Supports standard, mandated forms for transactions such as contributions, rollovers and transfers. The presence of agreed standard forms would provide the starting point for industry wide straight-through processing. In the absence of an industry standards governance body, an APRA convened industry working group appears an appropriate starting point for determining which forms should be standardise and for development of the forms. ASFA would be keen to be a part of such a working group.

## **EFFICIENT USE OF TECHNOLOGY AND E-COMMERCE**

ASFA:

- Supports the proposal that employers be charged an additional fee for non-electronic contributions. However, ASFA is uncertain of the legal basis for imposing and enforcing such a fee while making it payable to a superannuation fund.
- Supports the inclusion on an RSE License of a condition that would require a fund trustee to be able to receive and transmit data and money electronically and to provide such a service to both employers and other superannuation funds. ASFA notes that the imposition of such a requirement is dependant on their being agreed industry data standards and agreed methods of exchanging the data.

### **Electronic Funds Transfer**

ASFA notes the work being done by various parts of the finance sector to develop a means of carrying more data with a payment transaction. These developments have the capacity to enable the widespread adoption of straight-through processing methodologies across the industry.

### **Section 7.1.2 SwimEC**

The discussion in this section of the report on the Superannuation, Wealth and Investment Management (swimEC) Program is noted.

However, in the interests of completeness ASFA would like to expand on the information contained in the report.

The swimEC program has produced the following three standards.

#### *Electronic Superannuation Contribution Payments*

This Standard is designed to enable employers and their agents to forward superannuation contributions, and information about those contributions, to superannuation fund administrators using the established EFT (via BECS Direct Credit) and BPay payment streams.

The Standard was released in March 2005 in response to the choice-of-fund legislation. It has been widely adopted by the larger funds but is limited in the capacity of each transaction to only handle one type of contribution and for one employee/member.

#### *Superannuation – Registration and Contributions*

The Superannuation - Registration & Contributions Standard covers the following transactions between employers / payroll providers and superannuation funds / superannuation fund administrators:

- Employer registration
- Employee/member registration
- Contributions

Although several large funds, administrators and clearing houses are swimEC compliant with regard to this standard, very few organisations are actually using it.

#### *Superannuation – Rollovers*

The Superannuation - Rollovers Standard, issued in May 2006 covers the rollover of superannuation monies between superannuation funds. A revised version is currently under development. Several large retail funds have adopted the standard for processing 'internal rollovers' (i.e. rollovers between divisions of a single trust, or between products administered by the one organisation). Although not widely adopted for rollovers between discrete organisations, several organisations are looking at the data content (data items and data definitions) in conjunction with developing more streamlined rollover processing arrangements.

Central to the low take up rate of the Registrations and Contributions, and Rollover standards is the requirement that to be swimEC compliant you must to adopt both the data requirements and definitions, and the data transmission method.

There appears to be general acceptance within the industry that the real value in the work undertaken by the swimEC program is in the identification of the data items, the establishment of data definitions and the creation of a data dictionary.

However, there is a general reluctance to adopt the mandated data transmission method due to the IT costs involved.

In light of this, ASFA will be proposing to the swimEC Council that the swimEC Registrations and Contributions, and Rollover Standards each be split into two standards – one dealing with the data and the other dealing with the data transmission methods.

By doing this, the industry should be in a position to settle on the data content, whilst allowing the market to determine the methods by which the data is to be moved. This should provide flexibility for new data transmission methods to be adopted in the face of evolving technological advancements.

With regard to the data items and definitions, of particular note is that:

- the data terms and definitions are consistent with those used by the ATO,
- Medicare has adopted the swimEC data terms and definitions for their clearing house, and
- Indications are that the SBR project will adopt the ATO/ swimEC data terms and definitions into its taxonomy (data dictionary).

### **Achieving e-commerce as the norm in superannuation**

ASFA, notes the Report's recommendation with regard to Treasury convening a working group to devise the process for the development of SBR-compatible standards for the financial sector for agreed standard processes.

While ASFA is strongly supportive of having standard forms for basic processes such as contributions and rollovers, the adoption of standard terminology and definitions across the industry, and of Treasury involvement in the process, ASFA is less supportive of the suggestion that standards be based on SBR protocols.

ASFA's concerns are that:

- The proposed standards delivery date of 2013 appears to be too short given the current workload of the SBR project and its focus on business to government data transfers.
- SBR is non-mandatory. That is, businesses that have not adopted the XBRL data transfer protocol specified for SBR would receive no advantage, and may in fact be disadvantaged, by a requirement to use XBRL for superannuation processing.
- Mandating SBR protocols would replicate the industry's perceived shortcoming of the swimEC standards. That is, it was not the specification of the data to be transferred that was at issue, but rather the specification of the method by which the data was to be moved.
- Mandating SBR protocols would unnecessarily require some entities to undertake a costly IT exercise for no benefit. For example, such a requirement would appear to provide limited benefit to a fund or the fund's sponsoring employer where the contributions and contributions data is currently being delivered electronically.

While ASFA generally supports the Report's proposal that all administrators, clearing houses and self administered funds be required to adopt the standards, our strong preference is that those standards define data content, not the method of delivery.

However, in support of the adoption of standards, ASFA strongly recommends that each of the above entities be required to make available a mechanism whereby both data and associated financial transactions can be delivered to them electronically.

## **ADMINISTRATORS**

ASFA notes that the Report discusses the important role played by administrators and considers the range of views put forward in the various submissions but has yet to make a recommendation on the need for direct regulatory supervision.

ASFA considers that the role played by external administrators, and the reliance placed by some funds on their administrator is of such critical importance to the safety of superannuation that external administrators should be subject to direct regulatory oversight.

ASFA considers that the APRA approach of achieving regulatory reach into administrators by way of the outsourcing operating standard in SIS, while not without merit, is inefficient. Direct regulatory oversight would enable a regulator to review the capacity of the administrator to satisfactorily perform its functions in relation to all of its superannuation fund clients, not just with respect to the particular client whose outsourced administration contract is under review.

ASFA repeats its call from its earlier submission that:

- Where the administration function for a superannuation fund (or RSE) is performed by a separate entity, APRA should regulate that entity.

## **CLEARING HOUSES**

ASFA agrees with the consensus view on clearing houses as presented in the report.

ASFA also supports the recommendation that clearing houses be required to provide linked member and funding data electronically to the destination fund within two business days of receipt of clean data and cleared funds.

ASFA considers, however, that this recommendation, on its own will not resolve all of the relevant issues surrounding clearing houses. To be effective, the earlier recommendation that regulated APRA funds be able to receive data and money electronically must also be adopted.

Additionally, ASFA recommends that clearing houses be licensed and that their activity be regulated such that minimum operating standards can be achieved across the industry.

ASFA further recommends that where employer contributions are made to such a clearing house the employer's SG obligation is met on acceptance of the contribution by the clearing house. That is similar treatment is afforded to that given to employers paying to the Medicare superannuation contributions clearing house.

## **TAX FILE NUMBERS (TFNs)**

The proposal to extend the use of TFNs as set out in the Report is strongly supported. Permitting the extended use of TFNs, and particularly its use as a primary search key, would enable a range of processes to be undertaken more efficiently and effectively and to the benefit of the individual member.

## **PORTABILITY, SMALL/INACTIVE ACCOUNTS, LOST MEMBERS AND ERFs**

### **Auto-consolidation within the same fund**

ASFA, while noting and supporting the objective of the proposal to allow auto-consolidation of accounts within a fund and without reference to the member, cautions that careful consideration needs to be given to implementation issues related to the structure of the industry.

Many trust deeds are structured such that a single fund may contain a range of products, divisions and sub-plans.

ASFA would not consider it desirable that where a person had an active account in more than one employer sub plan within a corporate master trust that those accounts should be auto-consolidated without reference. Such action may have adverse SG compliance impacts on the contributing employer. There are many other situations where a member may hold multiple accounts under a single trust deed for valid and deliberate reasons.

However, auto-consolidation without reference would be appropriate where a person had two identifiable accumulation accounts within the same product, division or sub-plan.

### **Optional account consolidation across more than one fund**

ASFA is supportive of the recommendation that the ATO develop electronic means to display to an individual a list of all the superannuation funds that they belong to.

However, it is noted that under current data exchange arrangements the view would not be a 'current' view but rather a 'historical' view of data collected in respect of the individual as at the last 'test' date. Thus the member may be looking at data that is between four and 16 months old. Displaying aged data may have implications for both the member and the displayed funds. To counter this, appropriate warnings to the member may be required.

### **Rollovers/switching funds**

ASFA is supportive of the recommendations that:

- Funds and clearing houses be able to validate TFN ownership with the ATO. It is a subject that has been previously raised by ASFA.
- Funds be prohibited from accepting a person as a new member unless there is adequate identification provided.
- Accepting a contribution that cannot reasonably be attributed to a particular member.
- The AML/CTF exemption from customer identification rules for new enrolments be removed, provided:
  - that it is mandatory for an employer to provide a TFN for a new member enrolment,
  - that funds are able to validate TFN ownership with the ATO, and
  - that employers have an alternative option for meeting their SG obligation should an employee not provide appropriate information.
- A process be established that would enable rollovers to be initiated by the destination fund with minimal interference from the source fund.
- Facilitate the electronic transfer of rollover monies. However, ASFA recommends that before such action is mandated there is a range of legal liability issues that need to be resolved regarding the passage of money through the banking system.
- The choice of fund form should be reviewed with a view to improving its effectiveness and usefulness.

### **One national ERF**

ASFA is supportive of the move that the prudential expectations of ERFs be more clearly defined.

### **Member protection**

While ASFA is supportive of the recommendation that the member benefit protection rules be removed as it has largely served its needs now that the SG rate has risen to 9% and choice of fund is in place, consideration needs to be given to the circumstances of specific groups within society such as supported employees employed under the Supported Employment Services Award 2010.

Effective from 1 January 2010 these employees are entitled to an award superannuation contribution of as little as \$6 per week.

### **Roles of ATO and APRA**

ASFA supports the recommendations that:

- Employers be required to remit salary sacrifice contributions no less frequently than it remits SG contributions.
- The ATO be the sole regulator for monitoring all aspects of superannuation contributions.

ASFA notes the recommendation regarding ATO handling of SG complaints. ASFA would expect that, in responding to a complaint about any aspect of a business the ATO would look at the business holistically in a risk based manner and would not deal with the specific complaint in isolation.

Committee members agreed that they would provide their suggestions for an appropriate governance structure for implementing the various electronic commerce initiatives would be provided to the ASFA Secretariat in the next two weeks, namely by cob 23 April. ASFA should play an important role in whatever governance structure is put in place.

### **Conclusion**

Overall, ASFA is supportive of the core themes outlined by the Panel in the SuperStream proposals. If adopted by government they would enable the superannuation industry to overcome the current issues associated with the identification of members and would provide the essential framework to support the widespread adoption of electronic commerce.

ASFA is appreciative of the Panel's recognition of the need for further consultation on key issues such as the governance arrangements for industry standards. ASFA considers that successful resolution of this issue will be central to the successful implementation of the Panels recommendations, should they be adopted by Government.

I trust that the information contained in this submission is of value. We would be pleased to meet with you to discuss our submission.

Yours Sincerely



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